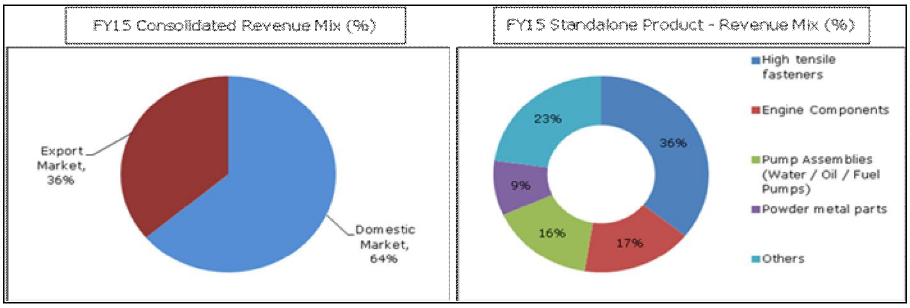
Sundram Fasteners Limited INR 172

KRChoksey Personal

Company Profile

Sundram Fasteners Limited (SFL) is a part of TVS Group and the largest manufacturer and exporter of high tensile fastener. Through organic and inorganic route SFL has acquired cutting-edge technological competencies in forging, metal forming, close-tolerance machining, heat treatment, surface finishing and assembly. SFL product portfolio is well diversified consisting of fasteners, metal forms, radiator caps, automotive pumps and assemblies, tappets, hubs and shafts, sprockets, warm forgings and etc with operations in India, China, the United Kingdom, Malaysia, Germany, and the United States. SFL is the largest player in the domestic high-tensile fasteners segment.



Source – Annual Report 2015

Investment rational

- SFL holds dominating position in domestic fastener industry with 6,000-7,000 varieties of fasteners. SFL has been one stop shop for its diverse client base spread across geographic which has aided the company in maintaining its leadership position in the industry. SFL has been able to access large global players like General Motors, Delphi Automotive, Cummins Engine Co and Deere and Co, Daimler Benz, Deutz Motors, Holset, Iveco, MTU, Proton, Valeo and ZF as its clients. SFL derives about 36% of it's consolidate revenues from exports and 10% from replacement market, which acts as a valuable diversifier in the cyclically-driven domestic auto industry. It has been able to maintained average EBITDA margin of ~12% over the year.

- SFL's majority of domestic revenues come from commercial vehicle (CV) and passenger vehicle (PV) segments. Society of Indian Automobile Manufacturers (SIAM) estimates the medium and heavy commercial vehicle industry to grow at 12-15% where as PV to growth at 6-8% in FY17. Given that SFL is a market leader and a supplier to Maruti, M&M, Tata Motors and Ashok Leyland — the leading PV & CV manufacturers in the country — the company will be a direct beneficiary of the revival.

- SFL, in order to maintain its dominating position in fastener industry it is planning to invest Rs 130-150 crs in plant modernisation and expanding capacities of existing products.

- SFL being in capital intensive business it has been able to maintain consolidated debt equity ratio at 0.6x (FY16) & consolidated total assets turnover ratio stand at ~2x (FY16) and consolidated Return on Equity (ROE) stand at ~13%.

Target Price (INR): 213

Potential Upside : 24%

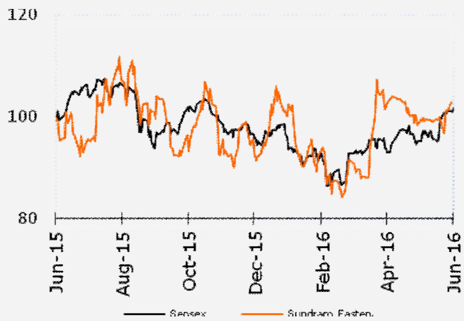
Market Data

Shares outs (Mn)	210
EquityCap (INR Mn)	210.1
Mkt Cap (INR Mn)	35727.5
52 Wk H/L (INR)	189/135
Face Value (INR)	1
Bloomberg Code	SF IN

Market Info:

SENSEX	26395
NIFTY	8108

Price Performance



Shareholding pattern (%)

Particulars	Mar16	Dec15	Sep15
Promoters	49.53	49.53	49.53
FIIs	0.68	2.8	3.14
DIIs	19.4	19.52	19.22
Others	30.39	28.14	28.11
Total	100	100	100

Source: BSE

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Outlook

The core ability of SFL lies in the manufacturing large variety of fastener. The management believe in stable growth with good margins and does not believe in taking unnecessary risks for pursuing growth, as a part of conservative strategy SFL has restructuring its international business to focus more on profitable business.

Going forward SFL holds good prospects with revival in CV & PV domestic demand. Currently, SFL majority of export revenue comes from US market and according to IHS estimates US auto market to see good growth in 2016 & 2017, powered by a combination of low interest rates and low gas prices.

We expect SFL operating performance to improve in near term due to expected revival in domestic CV & PV markets, its continued focus on exports, and the improving fundamental after its stake sell in Germany subsidiaries.

Valuation

We are positive on SFL on basis of its overseas business restructuring plan, which was dragger on its overall performance and going forward we see improvement in margin, ROE and profitability. The stock currently trades at 19.2x FY17E consolidated EPS of Rs 8.9 and 16.2x FY18E consolidated EPS of Rs 10.6. We are positive on stock and recommend to 'Buy' with price target of Rs 213 based on 20x FY18E consolidated EPS of Rs 10.6 (10 year average P/E: 18.4), which implies potential upside of 24% to the CMP from 1 year perspective.

Key Risk

- Currency volatility
- Slowdown in auto sector
- Imposing of new tax by Government

Key financial

Consolidated Income Statement (Mn)	FY15	FY16	FY17E	FY18E
Total Revenue	31,728	33,219	33,575	35,559
EBITDA	3,923	4,462	4,213	4,641
EBITDA Margin (%)	12.4%	13.4%	12.5%	13.0%
PAT	1,312	1,230	1,875	2,220
PAT Margin (%)	4.1%	3.7%	5.6%	6.2%

Source – KRChoksey, PMS Research

ANALYST CERTIFICATION:

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